



# Monthly Economic Update

## January 2004



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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.montgomerycountymd.gov/finance>. For questions, please call (240) 777-8866.

➤ **Economic Conditions.** According to revised data from the U.S. Department of Commerce, the overall economy grew a respectable 4.1 percent for the fourth quarter of 2003 and 3.1 percent for the entire year. The expansion was attributed to consumer spending (+3.1%), business investment (+2.9%), and national defense (+10.6%). The economy is expected to grow 4.5 percent during the first quarter of 2004.

Specific national indicators for January experienced mixed results compared to December 2003, but increased compared to January 2003. For example, the index of leading indicators increased 0.5 percent in January over December, and new orders for nondefense capital goods excluding aircraft grew 1.3 percent. Industrial production increased 0.5 percent for the month and 3.6 percent over the past year. The economy added 112,000 jobs in January and inflation continued to remain subdued increasing only 1.9 percent over the twelve-month period. However, housing starts (-7.9%), home sales (-5.2%), and retail sales (-5.2%) all declined on a seasonally adjusted basis since December, but were above January 2003 levels.

For the Washington metropolitan region, the economy accelerated during the fourth quarter of 2003. Since September, the Washington MSA Coincident Index increased a solid 6.3 percent with the economy adding an additional 25,500 jobs and retail sales of durable goods up nearly 5 percent (seasonally adjusted in constant 1987 dollars).

➤ **Real Estate.** While regional home sales increased 4.4 percent in January compared to January 2003, sales in the County were flat over the same period. However, selling prices continued their dramatic increase with an average price of \$398,649 (+19.5% over January 2003) and a median price of \$319,950 (+23.1%) compared to the regional price increases during the same period of 4.3 percent and 5.8 percent, respectively.

➤ **Construction.** With the demand for residential housing remaining strong in the County, construction of

single-family houses picked up in January. After very weak construction activity in 2003, the number of construction starts increased 23 percent during the month compared to January 2003, the largest year-over-year increase since October 2002. However, with an annual rate of almost 3,300 housing starts in January, that rate is well below the 4,700 new households projected to need housing in the County during 2004. As such, demand will exceed supply and prices will continue to rise.

After a weak performance in 2003, non-residential construction also improved in January. While the number of projects was lower compared to January 2003, the amount and value of new non-residential construction increased dramatically with almost 900,000 ft<sup>2</sup> (746.2%) and \$36.3 million (+87.6%) of additional property added to the County's commercial base.

➤ **Inflation.** Inflation remains subdued both at the national and regional levels, with the region's overall rate slightly higher. For January, the region's inflation rate was 2.2 percent compared to 1.9 percent for the nation. For 2003, the overall rate for the region was 2.8 percent, slightly greater than the 2.3 percent for the nation and 2.4 percent for the region in 2002. Excluding food and energy prices, the region's inflation rate was 1.3 percent compared to the national average of 1.1 percent.

➤ **Interest Rates.** With the recent Federal Reserve's Open Market Committee (FOMC) position that "the fall in inflation now appears almost equal to that of a rise in inflation", the FOMC believes that it "can be patient in removing its policy accommodation" of a 1 percent target rate for federal funds. With inflation subdued and an accommodative Federal Reserve policy for the foreseeable future, interest rates, particularly mortgage rates, should remain at historic low levels. As such, interest rates for 30-year mortgages are expected to remain near 6.0 percent during the remainder of FY04.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		
				2003	2002	2002
Leading Indicators						
National	Jan. '04	0.5%		3.0%		0.7%
Washington MSA	Dec	0.5%		2.5%		-0.6%
Coincident Indicators						
National	Jan. '04	0.3%		1.1%		0.2%
Washington MSA	Dec	1.3%		1.9%		-0.6%
Consumer Confidence Index						
National	Jan. '04	5.6%		13.6%		-14.7%
South Atlantic Region	Jan. '04	3.2%		16.5%		-9.6%
Consumer Sentiment (University of Michigan)	Jan. '04	12.1%		6.8%		-2.4%
Consumer Price Index						
All Items (nsa)						
National	Jan. '04	1.9%		2.3%		1.6%
Washington - Baltimore CMSA	Jan. '04	2.2%		2.8%		2.4%
Core CPI (nsa)						
National	Jan. '04	1.1%		1.5%		2.3%
Washington - Baltimore CMSA	Jan. '04	1.3%		2.4%		2.9%
Retail Trade						
National (sales - nsa)	Jan. '04	5.0%		5.6%		3.1%
Washington MSA (sales - nsa)	Dec	9.7%		6.5%		4.1%
Maryland (sales tax)	Dec	5.9%		3.5%		1.6%
Montgomery County (sales tax)	Dec	5.0%		4.0%		0.9%
Employment						
National (household data - nsa)	Jan. '04	136,924,000	135,907,000	137,736,000	136,485,000	136,485,000
- Percent Change		0.7%		0.9%		-0.3%
Washington PMSA (household data - nsa)	Dec	2,758,987	2,712,003	2,763,091	2,719,777	2,719,777
- Percent Change		1.7%		1.6%		3.7%
Montgomery County (resident)	Dec	493,625	490,178	495,052	489,673	489,673
- Percent Change		0.7%		1.1%		2.5%
Montgomery County (payroll)	June	457,053	453,996	447,891	446,758	449,195
- Percent Change		0.7%		0.3%		0.7%
Unemployment						
National (nsa)	Jan. '04	6.3%	6.5%	6.0%	5.8%	5.8%
Maryland (nsa)	Dec	4.1%	4.0%	4.3%	4.4%	4.4%
Washington PMSA	Dec	3.0%	3.2%	3.4%	3.7%	3.7%
Montgomery County	Dec	2.3%	2.3%	2.5%	2.8%	2.8%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousand)	Jan. '04	\$111,633	\$64,328	\$949,138	\$1,656,106	\$1,659,106
- Percent Change		73.5%		-42.7%		9.5%
Residential (\$ thousand)	Jan. '04	\$36,296	\$19,348	\$567,664	\$802,476	\$802,476
- Percent Change		87.6%		-29.3%		-4.2%
Non-Residential (\$ thousand)	Jan. '04	\$75,337	\$44,980	\$381,474	\$856,630	\$856,630
- Percent Change		67.5%		-55.5%		25.0%
Building Permits (Residential)						
National	Dec	145,185	132,716	1,862,365	1,747,678	1,747,678
- Percent Change		9.4%		6.6%		6.8%
Maryland	Dec	2,510	2,023	30,125	29,293	29,293
- Percent Change		24.1%		2.8%		0.8%
Montgomery County	Dec	255	226	4,590	5,013	5,013
- Percent Change		12.8%		-8.4%		-1.5%
Building Permits (Non-Residential)						
Montgomery County	Jan. '04	135	145	1,798	1,858	1,858
- Percent Change		-6.9%		-3.2%		-11.6%
Real Estate						
National						
Sales	Jan. '04	6,040,000	5,920,000	6,100,000	5,566,000	5,566,000
- Percent Change		2.0%		9.6%		5.1%
Median Price	Jan. '04	\$168,700	\$160,000	\$170,000	\$158,100	\$158,100
- Percent Change		5.4%		7.5%		7.0%
Montgomery County						
Sales	Jan. '04	952	953	16,534	16,071	16,071
- Percent Change		-0.1%		2.9%		3.4%
Average Price	Jan. '04	\$398,649	\$333,723	\$362,997	\$320,708	\$320,708
- Percent Change		19.5%		13.2%		16.6%
Median Price	Jan. '04	\$319,950	\$260,000	\$295,500	\$255,845	\$255,845
- Percent Change		23.1%		15.5%		19.0%
Average Days on the Market	Jan. '04	37	36	27	20	20